

Message Text

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DRAFTED BY EUR/IB:JMSMITH:MJK

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COMMERCE DIBA - MR. GAINES

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TO AMEMBASSY LISBON

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E.O. 11652:N/A

TAGS: ELAB, PINT, PO

SUBJECT: APPLIED MAGNETICS WITHDRAWAL FROM PORTUGAL

REF.: LISBON 3467

1. CECIL FRAZER, FORMER MANAGER OF APPLIED MAGNETICS' PORTUGUESE SUBSIDIARY TELEPHONED DEPARTMENT AUGUST 21 TO REPORT ON HIS FIRM'S EFFORTS TO PULL OUT OF PORTUGAL. SAID HIS FIRM COULD HAVE LIVED WITH WAGE INCREASES GRANTED IMMEDIATELY FOLLOWING APRIL 25 COUP, AT WHICH TIME LABOR FORCE SEEMED COMPLETELY LOYAL. SUBSEQUENTLY, HOWEVER, TWO AGITATORS, ONE FROM PCP AND ONE FROM MRPP, BEGAN SUBVERSION OF WORKERS AND MANAGED TO GAIN CONTROL OF LABOR FORCE AND SECURE ITS SUPPORT FOR UNREALISTIC DEMANDS (E.G. 300 PER CENT INCREASE IN WAGES FOR LESS SKILLED WORKERS).

2. FRAZER SAID HE CONSIDERED LABOR MINISTER COSTA MARTINS CONSCIENTIOUS AND THAT PROVISIONS OF PROPOSED NEW LABOR LAW OUTLINED BY HIM SEEMED REASONABLE (E.G. INCREASED UNEMPLOYMENT BENEFITS AND CERTAIN CONDITIONS PLACED ON LIMITED OFFICIAL USE

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RIGHT TO STRIKE). HOWEVER, SINCE GOP WAS UNABLE TO ENFORCE

EXISTING LAWS, APPLIED MAGNETICS HAD NO RPT NO CONFIDENCE IN ITS ABILITY ENFORCE NEW LAW. THEREFORE, EVEN TAKING INTO ACCOUNT STRONG LIKELIHOOD OF DEVALUATION OF ESCUDO, HIS FIRM SAW NO ALTERNATIVE TO GETTING OUT OF PORTUGAL.

3. FRAZER SAID HIS FIRM HAD NO RPT NO DESIRE FOR BANKRUPTCY PROCEEDINGS WHICH WOULD TIE UP TWO OR THREE YEARS INVENTORY AND EQUIPMENT OF SUBSIDIARY, WHICH THEY WOULD LIKE TO USE NOW IN THEIR US PLANT. APPLIED MAGNETICS HAD THEREFORE PROPOSED TO LABOR MINISTRY ON AUGUST 20 THAT IT BE PERMITTED TO PURCHASE INVENTORY AND EQUIPMENT FROM ITS SUBSIDIARY FOR 6 MILLION ESCUDOS, FRAZER SAID IF GOP WOULD WAIVE INCOME TAXES ON WAGES IN QUESTION, THIS AMOUNT WOULD SATISFY ABOUT 60 PER CENT OF WAGES CLAIMED BY WORKERS FOR PERIOD OF STRIKE.

4. FRAZER SAID HE WOULD APPRECIATE ANY ADVICE OR GUIDANCE USG MIGHT BE ABLE GIVE HIS FIRM. AS FOR USG ASSISTANCE, HE SAID HE RECOGNIZED IT VERY DIFFICULT FOR USG TO ATTEMPT TO INFLUENCE PENDING PORTUGUESE LEGISLATION. ONCE THE NEW LAW IS ISSUED, HOWEVER, USG COULD ASK GOP TO ENSURE THAT LAW IS ENFORCED IN CASES INVOLVING US FIRMS. KISSINGER

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